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Viewing cable 08SOFIA89, PUTIN'S BULGARIA VISIT: FRICTION AND "FRIENDSHIP"

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Reference ID	Created	Released	Classification	Origin
08SOFIA89	2008-02-12 14:30	2011-08-30 01:44	SECRET//NOFORN	Embassy Sofia

Appears in these articles:

<http://www.bivol.bg/wlbelene.html>

http://www.capital.bg/politika_i_ikonomika/bulgaria/2011/04/29/1082317_mrusna_energiia/

<http://wlcenral.org/node/1722>

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OO RUEHFL RUEHKW RUEHLA RUEHROV
DE RUEHSF #0089/01 0431430
ZNY SSSSS ZZH
O 121430Z FEB 08 ZDS
FM AMEMBASSY SOFIA
TO RUEHC/SECSTATE WASHDC IMMEDIATE 4757
INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE PRIORITY
RHEFDIA/DIA WASHINGTON DC PRIORITY
RUEAIIA/CIA WASHINGTON DC PRIORITY
RUCPDO/DEPT OF COMMERCE WASHINGTON DC PRIORITY
RHEBAAA/DEPT OF ENERGY WASHINGTON DC PRIORITY
RHEHNSC/NSC WASHINGTON DC PRIORITY

S E C R E T SECTION 01 OF 03 SOFIA 000089

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E.O. 12958: DECL: 01/27/2032

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SUBJECT: PUTIN'S BULGARIA VISIT: FRICTION AND "FRIENDSHIP"

REF: A. SOFIA 0048

[1](#)B. SOFIA 0067

SOFIA 00000089 001.2 OF 003

Classified By: Ambassador John Beyrle for reasons 1.4 (b) and (d).

[1](#)1. (C) Summary: The whirlwind that was Russian President Putin's January 17-18 visit to Sofia ended up generating as much friction as friendship with the Bulgarians. Heavy-handed Russian pressure in securing the signing of the South Stream deal, plus seven other bilateral agreements, had Bulgarian officials gritting their teeth behind diplomatic smiles. The visit was meant to kickstart the Year of Russia in Bulgaria, a "soft power" program replete with cultural events, as well as a year-long plan for further economic and political cooperation. What the visit accomplished was a tightening of Russia's grip on the Bulgarian energy sector, and, in the case of South Stream, a perceived blow to Nabucco and regional and European energy security. It was not an unalloyed success, either for Russia or Bulgaria. Even before wheels up, the ruling socialists were on the defensive for signing the South Stream deal after repeatedly saying they were not ready to do so. Opposition party and opinion-maker accusations that Bulgaria was being "Putinized" and turned into Russia's Trojan horse in the EU have clearly hit a nerve with top officials. Leading GOB officials, the Prime Minister and Foreign Minister included, now appear more intent to prove Bulgaria's credentials as a dependable EU and NATO member. They know they must prove themselves on energy security, Nabucco, and other critical issues in our bilateral relationship, which can give us additional leverage on key issues like Afghan deployments and energy deal follow-up in the months ahead. End Summary.

RUSSIA TIGHTENS ITS GRIP

[1](#)2. (C) With the dust now pretty much settled after the January 17-18 visit of President Putin (and heir-apparent Medvedev), some clarity on what was -- and wasn't achieved -- has emerged. Energy deals dominated the visit. With the four signed energy agreements -- on South Stream, the Burgas-Alexandropolous Pipeline (BAP), Russian construction of the new Belene Nuclear Power Plant, and on nuclear fuel return -- Russia tightened its grip on the already dependent Bulgarian energy sector. Despite Prime Minister Stanishev's and other government officials' public promises to protect Bulgaria's interests, the Bulgarians gave away some key redlines, especially during the negotiations for the largest and most controversial South Stream deal, which Russia actually wanted -- and needed -- more. Finalized in the early hours of Putin's departure day, the Bulgarians conceded key points prematurely and with not enough in return (Reftels). Already over 90 percent dependent on Russian energy, the Bulgarians put themselves on the "energy map" by allowing Russia a much larger footprint in the EU, renewing doubts over Nabucco, and paving the way for Serbia to give up 51 percent of its oil company to Gazprom the following week. With the economics of South Stream questionable and its actual construction years off, its political ramifications loom far larger than its actual financial value.

[1](#)3. (C) The Belene deal is immediately and tangibly more significant for Bulgaria's energy sector. AtomstroyExport (with French and German participation) won the tender in October 2006 to build the four billion euro project, which is designed to replace the shut down reactors at Kozloduy. As such, Belene will eventually provide a direct boost to Bulgaria's energy production and electricity export capacity. Construction will inject huge sums into an economically distressed part of the country. Already firmly in the driver's seat at Belene, Russia is looking to maximize its

control of the mega-project. In addition to signing the main contract for design, construction, and installation, Putin further announced Russia was prepared to offer up to 3.8 billion euros in credit to finance construction of the plant.

Foreign Minister Ivailo Kalfin told the Ambassador January 25 that the Russian offer came as a complete surprise, and if taken advantage of, would force the cancellation of a tender process to select a strategic investor for Belene. (Note: Five European companies are in the running.) Although Russian credit terms would likely be more attractive, Kalfin said it was more important to find a non-Russian strategic investor in a transparent tender process.

SOFIA 00000089 002.2 OF 003

IT'S NOT JUST ENERGY

14. (S/NF) Obscured by the focus on energy, the other agreements signed during Putin's visit focused on trade, education, culture, and tourism and highlighted Moscow's desire to build on its already strong presence in Bulgaria. The two sides signed a ferry service agreement between the ports of Varna and Kavkaz, Russia, and a memorandum on Military Aircraft repair. In addition, President Parvanov stated that the issue of Russia's outstanding debt to Bulgaria (which is estimated between USD 19 and 38.5 million) would be resolved in the coming weeks. MFA sources say Russia will repay its debt in spare parts and repair of Russian MiGs. (Note: Bulgaria's M-29 fleet is in sad shape; even once repaired, MOD has such limited fuel funds that pilots average less than 20 flight hours per year.)

15. (S/NF) Also raised, but not decided, was the long-standing issue of licensing for small arms that are manufactured in Bulgaria, but over which Russia claims intellectual property rights. Russia has demanded a prior written notice and a veto right over the shipment of these arms to certain countries (especially Georgia). Essentially, the Russians conceded nothing, and the issue was shelved. Putin also left the Bulgarians empty-handed on the issue of the return of Bulgarian archives seized immediately after World War II. Putin reportedly asked Bulgaria for a formal request for the return of these documents, brushing aside the fact that Bulgaria had done so years earlier. Despite rumors of forward movement on this issue before Putin's arrival, the archives (military records, cabinet minutes and private papers of the Bulgarian royal family) did not deliver the Bulgarians an immediate, hoped-for success.

GOVERNMENT ON THE DEFENSIVE

16. (C) The lack of transparency over the energy deals, especially South Stream, had the GOB on the defensive even before Putin was wheels up. The conservative opposition parties were the first to object, prompting PM Stanishev, FM Kalfin and Minister of Economy and Energy Petar Dimitrov to seek a statement from the coalition majority in Parliament in favor of the energy deals. The session was rancorous and ended without a statement, although we expect that the South Stream deal will eventually be ratified. Overall, media and opinion maker reaction to the visit, especially the energy deals, was a mixed bag. While some media outlets welcomed Bulgaria's emergence as an "energy hub," many others, including some usually supportive of the government, accused the BSP of allowing the "putinization" of Bulgaria and asserted that Bulgaria was becoming the "Trojan horse of Russia's energy policy in the EU."

17. (C) The sharp criticism of the energy deals and tepid support of BSP coalition partners clearly touched a nerve within BSP leadership. With coordinated talking points, PM Stanishev and FM Kalfin, who are both otherwise supportive of greater diversification of energy supplies, have been trying (not entirely convincingly) to hide any evidence of buyer's

remorse on South Stream and justify their actions (ref B). President Parvanov, who was widely criticized for calling the signing of the energy deals a "grand slam" for Bulgaria, later responded defensively to the Trojan horse accusation by saying "the EU is neither Troy nor under siege."

COMMENT

18. (C) One analyst summed up the visit by saying "Russia has given Bulgaria things that do not cost money. In return, Bulgaria will have to give Russia for free things that cost a lot of money: Burgas-Alexandropolous, South Stream, inflated gas prices, and huge fees for the construction of the completely unnecessary Belene nuclear power plant." Indeed, the Bulgarian portion of the energy deals alone represents at least USD 10 billion, or about 25 percent of estimated 2007 GDP. These deals, along with the cultural and other "soft power" agreements will, in Dimitry Medvedev's words, "link Bulgaria and Russia for decades." And that was clearly a strategic aim of the visit, from a Kremlin sparing little effort to rebuild lost market share with a historic ally.

19. (C) But Bulgaria, while still lacking self-confidence in dealing with Moscow, is also no longer the servile "little

SOFIA 00000089 003.2 OF 003

brother" the Russians remember. The unexpectedly strong criticism of the optics of the visit and the substance of the energy deals -- both domestically and internationally -- have unsettled the government and left the socialist party in particular feeling exposed. Upcoming debate in Parliament surrounding the ratification of South Stream will require the government to publicize the text of the agreement. This will ensure continued opportunities to re-focus on Nabucco, question the commercial viability of South Stream, and spotlight the related gas/transit agreement signed in 2006 with Gazprom, the terms of which have never been fully examined or explained here. Beyond the energy sphere, the government's fear that it has tacked too far eastward should provide us with more leverage as we press for increased Bulgarian troop commitments in Afghanistan, and more concrete results from our joint counterproliferation and anti-trafficking programs. Secretary Rice's visit here in April, and the Prime Minister's hoped-for visit to Washington at mid-year, will offer Bulgaria a chance to demonstrate -- to the United States and the EU, and to its own public -- that there is no change in Bulgaria's strategic transatlantic orientation. END COMMENT.

Beyrle